INCOMING TELEGRAM

Department of State

DEPARTMENT OF STATE
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TELEGRAPH BRANCH

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FROM: Tokyo

TO: Secretary of State

NO: 1886, March 10, 4 p.m.

DEPARTMENT OF STATE
MAR 10 1952
TREATY BRANCH
OFFICE OF THE LEGAL ADVISER

TOP4D

Re Dept standard fon draft article 7.

Japs have proposed paras one and two, article 7, and para one, article 8, of Columbia Treaty be substituted for article 7 standard drafts; however, they wld delete "financial activities" from their para one because of FINMIN position against national and min treatment such activities. Overall reason given is prevent possibility alien control of econ. Japs indicated (A) Prohibition of depository function not (rpt not) sufficient to prevent control of domestic industries, since alien banks may acquire capital from main office or thru debentures; (B) Since industry may be controlled thru loans, Japs do not (rpt not) favor foreign bank loans to mining, gas and electric industries; (C) Loan activities permit acquisition of full knowledge domestic and econ situation, which may create national defense problems (altho this allegedly not (rpt not) directed at US); (D) Alien banks making secured loans may gain control of industry; (E) Not (rpt not) possible exercise full supervision alien bank with main office abroad; (F) To protect debenture holders; not (rpt not) desirable permit alien banks issue debentures; (G) Japan has little capital and high interest rates, hence alien banks with abundant capital and low rates may dominate foreign exchange, foreign trade, commerce and industry; (H) Difficult to control alien and domestic banks on equal terms re foreign exchange matters; (I) Since insurance institutions similar to financial, same view applies to insurance activities i.e. no treaty coverage.

Japs stated generally their views not (rpt not) directed against American interests, but fear precedent of standard draft vis-a-vis other far east countries. Mission reps pointed out that article 7, para two, standard draft permits limitations on alien activities re "banking involving depository or fiduciary functions". Japs asked if scope of "fiduciary functions" broad enough to permit restrictions on "creditor-debtor or lending functions". If this intended, standard draft article 7, para two, wld appear in main to meet Jap points. Mission requests precise clarification scope of "fiduciary functions". However,

regardless of

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regardless of intent, Japs take strong position against treaty protection of "financial activities". They want free hand in dealing with such activities. At first Japs indicated this wld be a negotiation point; later stated wld reconsider position in light of Mission's memo conversation to be submitted for their clearance. Further indications their attitude is their serious proposal to limit alien activities in shipbuilding and mfg and distribution gas and elec. Mission contemplating higher level talks to prevent Jap position from becoming firm or even negotiating point, in effort save heart of treaty.

Request comment.

Mission memos conversation for first talks being air pouched prior to agreement by Japs.

SEBALD

JWM:ARL